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SUBJECT: MADRID WEEKLY ECON/AG/COMMERCIAL UPDATE REPORT -
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VICE PRESIDENT AND FINANCE MINISTER PEDRO SOLBES SAYS HE WILL NOT COMPETE IN A TAX CUTTING "AUCTION" WITH OPPOSITION
CONSERVATIVE PP PARTY

¶11. (U) The opposition Popular Party recently proposed tax cuts on the order of euros 20 billion. The budget surplus this year is euros 7 billion - Solbes says any tax cuts should amount to considerably less than this figure given future health and pension commitments. The Minister also criticized Rodrigo Rato for leaving the IMF two years before his term expired. Solbes also made it clear that would have preferred more long-term measures to increase the fertility rate in Spain, rather than the euros 2500 the Zapatero government intends to give families for each new baby. (El País, July 22)

SPANISH POLICE ARREST 16 PEOPLE FOR INTERNET PIRACY

¶12. (U) This was a big raid, and the arrests reflected the large-scale commercial nature of much of the internet piracy that goes on in Spain. For example, the groups sold a DVD called "All in One," which provided software used in neutralizing security systems. The DVD cost euros 9500 and was bought by people specializing in installing pirated software. The economic damages caused by the sale of just this one product are estimated to have amounted to euros 80 million. (Comment: The arrests were conducted by the Spanish police's Antipiracy and Technology Investigation Brigade.

This unit is highly respected by the content provider community. The question is now whether the Spanish judiciary will issue deterrent level sentences. In general, copyright industry representatives respect police work against internet pirates - they just wish there were more of it. The industry is much more critical of the judiciary.) (El Pais, July 23)

TWO SYRIANS ARRESTED FOR CHANNELING FUNDS FOR THE JIHAD

¶3. (U) Syrian citizens Bassan Dalasi Satut (48 years old) and Samer Dabbas (30 years old) were arrested Wednesday morning in Madrid for channeling funds from radical extremists living in Spain to the jihad. Some of the money came from Spanish and foreign Islamist investors, and it was usually invested in building houses that were later sold. The profits were sent outside Spain. The police also seized 120,000 euros in cash, press information related to international terrorism, cell phones, and computer material. Minister of Interior Rubalcaba said that the suspects had bank accounts in different countries in the amount of 700,000 euros. Spanish prosecutors are expected to charge the suspects with cooperating with a terrorist organization, forging documents, and money laundering. Bassan Dalasi Satut had taken over the job of Mohamed Ghalef Kalaje Zouaydi, alias Abu Talha, who was arrested in the Datil operation November 2001, and who is serving a nine year jail sentence.

EC MAY BE FORCED TO CHANGE AGBIOTECH EVALUATION PROCESS

¶4. (U) A confluence of unintended consequences stemming from agriculture policy may force the European Commission (EC) to change its agriculture biotechnology evaluation process and/or its renewable fuels goals. European Union (EU) failure to act/react expeditiously to new agriculture biotechnology, and the worldwide push for renewable fuels production have led influential Spanish (and other EuropeQ) compound feed and meat and poultry producers to challenge the Commission. While Spanish grain farmers, who just harvested

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record grain crops, revel in the confluence of record-high production and high prices, Spanish compound feed, meat and poultry producers suffer the latter. Spanish compound feed producers do not have access to biotechnology corn produced in the United States, nor to any of its by products i.e. corn gluten feed, because the EC has not yet accepted the biotechnology corn varieties that are now under U.S. cultivation. In addition, new EU (Spanish ethanol production is further limiting the grain available to Spanish compound feed manufacturers. Could these events spell the beginning of the end to EU-US differences in agriculture biotechnology? We may be only one "short" world grain crop away from "yes."

IBERIA ALLIES WITH AMERICAN AIRLINES TO REQUEST ANTI-TRUST IMMUNITY FROM DEPARTMENT OF TRANSPORTATION

¶5. (U) The relationship between Iberia and American Airlines recently grew stronger after the two companies agreed to a framework that would broaden their commercial and operational cooperation. Iberia and AA submitted this framework agreement to the Department of Transportation (DoT) in the hopes of obtaining anti-trust immunity. Separately, Iberia and AA filed an additional framework agreement for DoT's approval between the two airlines and their Oneworld alliance partners, Finnair, Royal Jordanian, and Malev. Iberia representatives note that if approved, these agreements would allow the company to offer more flight destinations, flexibility in flying times and ticket purchases, and more attractive frequent flyer mile programs. Iberia airlines currently flies to DC, Miami, Boston, New York, and Chicago.

BUDGET SURPLUS FOR SPAIN FOR FIRST HALF OF 2007

¶6. (U) The Secretary of State for the Ministry of Economy and Treasury, Carlos Ocana, announced this week that at the close of the first half of 2007, Spain had a budget surplus of over

6 billion euros. In his announcement, Ocana added that the surplus was expected to grow further in the second half. According to the ministry, the surplus is a result of higher than expected revenues, brought on partly by more aggressive anti-fraud measures as well as higher than expected income tax revenue generated by a favorable economic and employment growth.

MINISTRY OF INDUSTRY TO INCREASE INVESTMENT IN AVIATION SECTOR

¶17. (U) The Minister of Industry Joan Clos unveiled Spain's strategic plan to boost the viability of Spain's aviation sector over the next 8 years. Under this plan, which would entail government investment of up to 11 billion euros starting in 2008, Spain hopes to strengthen its aviation sector's positioning vis a vis other European countries. The Ministry of Industry's investment would support programs to increase the sector's production capabilities as well as research and development. In his announcement of the plan, Minister Clos expressed hope that by 2016, Spain's aviation sector would be able to make a more notable contribution to the country's GDP.

ANNOUNCEMENTS FOR MAJOR BIODIESEL PRODUCTION PLANTS IN SPAIN CONTINUE

¶18. (U) Madrid-based Elecnor, a widely diversified Spanish utility company, plans to build one of the world's largest biodiesel production plants in the port of Gijon, in the northern region of Asturias. The 70 million euro construction project will be completed in mid 2009 and will produce up to 500,000 tons of biodiesel per year from vegetable oil, according to the company (Reuters, July 18). The Spanish biofuel company Biocarburantes Vascos announced plans to build a large biodiesel plant in the Spanish North African port of Cueta. The 44 million euro plant will have production capacity of 200,000 tons of plant-based diesel fuel per year. Construction of the Cueta-based facility will be completed 16 months after land reclamation is finished. The company also operates a 120,000 ton per year plant near Seville, and is planning construction of three additional plants in Spain (Reuters, July 26). Several other Spain-based biodiesel production plants have been announced in recent months, including Italian oil refining company Sara's current construction of a 200,000 ton per year biodiesel plant in Cartagena, Spain. (Reuters, June 6) These new biodiesel production plants represent the market's continued response to the GOS's decision to make the EU's non-binding target of 5.75 percent biofuel usage in transport fuels mandatory by 2010.

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GOS ANNOUNCES ENVIRONMENTAL PLANS

¶19. (U) The GOS has recently made two environmental announcements related to energy use and climate change. On July 20, the GOS announced a new energy action plan for 2008-2012 entitled the Strategy of Saving and Energy Efficiency. The plan will reportedly generate savings of 87.9 million equivalent tons of petroleum, and reduce CO₂ emissions by 238 million tons. The GOS has committed nearly 2.4 billion euros to the plan, a more than 20% increase over the previous plan for the same time period. In total, 59 specific "actions" have been identified to reach the plan's goal, with efforts focused on seven industry sectors. The plan will include economic incentives, specific GOS initiatives and communication programs. (GOS, July 20) On the same day, July 20, the Cabinet of Ministers approved more than 80 "urgent measures" to fight climate change. Some of the announced measures include better insulation in government buildings, continued development of wind power and the elimination of vehicle registration taxes for automobiles that emit the least amount of CO₂. Both Vice-President/Minister of the Presidency Fernandez de la

Vega and Minister of the Environment Narbona emphasized that climate change will continue to be a major priority of the Zapatero Administration. (GOS, July 20)

CARLYLE GROUP WINS APPLUS BID

¶110. (U) The Carlyle group, teaming with Catalonian partners Caixa de Catalunya, Caixa de Manresa, Caixa de Terrassa, Caixa de Tarragona and the Real Automovil Club de Catalunya, has closed its deal to purchase Applus for 1.48 billion euros. Applus is a Spanish company whose business is the inspection and certification of a range of items such as cars, ships and factories. The owners of Applus, Agbar 53%, Union Fenosa 25%, and Caixa Madrid 22%, will profit handsomely from the deal. Agbar, the Barcelonan water utility will enjoy a profit of 210 million euros and plans to use the cash to pay off debt and expand its business. The deal which is Spain's largest buyout in some time saw Carlyle edge out France's Eurazeo whose bid offered similar compensation but imposed more conditions on Applus .

MANUEL JOVE ACQUIRES 5% OF BBVA

¶111. (U) Galician business magnate Manuel Jove, who made his fortune during the real estate boom as the founder of the Spanish property company Fadesa, has acquired a 5% stake in BBVA making him the largest single shareholder of the Spanish bank. The move by Jove was made after assurances to the Spanish bank that he had no intention of a takeover and would not seek a spot on the board or make changes to management. Jove's assurances were reportedly reassuring to the bank which sees Jove's stake as a protective measure, having recently fought off a bid by Sacyr Vallehermoso and is still considered ripe for takeover after some years without expansion.

CALL FOR SPANISH NATIONAL ENERGY POLICY

¶112. (U) The business organization CEOE has called on national government to harmonize environmental law and policy among the autonomous communities. CEOE advocates the establishment of a national standard on emissions that apply to all companies nationwide. CEOE is seeking a common standard to ensure fairness in the application of environmental regulations and level the playing field for businesses both on a national and EU level. While Spain admits that it is far off from meeting its Kyoto goals on emissions, Spanish businesses have also stressed that Spanish regulation can at times be overly harsh when compared to competitors operating in other EU nations.

POOR REPRESENTATION OF WOMEN ON SPANISH BOARDS GETTING WORSE NOT BETTER

¶113. (U) In spite of efforts to increase the presence of women at the highest levels of Spanish business, the evidence points to a worsening situation. Some progress was made in 2006 amid the debate and entering into force of the Unified Code of Corporate Governance and the Law of Equality: women board members on market listed corporations rose to 80, a 62% increase. It is worth noting however that this seemingly giant leap is to be considered against a total of 1,346 board seats so the 62% increase is an increase from a very low starting point. This year there is no doubt of a continuing problem as more women have left the boardroom than have entered it. In addition to this current trend there remains

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the statistic that 15 of the Ibex 35 companies are without a single female board member, including giants Telefonica, Endesa, Theria, Gas Natural, and Altadis.

DELPHI - UNION AGREEMENT SETTLES FINAL MAJOR HURDLE TO CLOSURE OF PUERTO REAL

¶114. (U) American car parts manufacturer Delphi reached an

agreement with UGT, its Puerto Real Plant's work-force union, on July 9, affirming a prior agreement struck with the Andalusia government. The agreement allows Delphi to move ahead with its plan to close the factory located in Cadiz province on July 31. The negotiated deal stipulates that Delphi provide a more generous compensation package for its displaced workers, that it assume 200 million euros worth of debt, and that it turn over the factory and its machinery (worth an estimated 160 million euros to the government of Andalusia in order to speed the recovery and redevelopment of the community. The total cost to be shouldered by Delphi relating to the closure is estimated at 500 million euros. The agreement will likewise allow the Andalusia Business Committee to move closer to finding a new owner for the manufacturing plant. Catalonia's Ficosa is currently the leading bidder. Ficosa would convert the factory into an aeronautics plant.

AGUIRRE